

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF FALLS WATER COMPANY, INC. FOR</b>	)	<b>CASE NO. FLS-W-03-1</b>
<b>AUTHORITY TO INCREASE ITS RATES</b>	)	
<b>AND CHARGES.</b>	)	<b>ORDER NO. 29397</b>
	)	

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On July 25, 2003, Falls Water Company (Falls Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase its revenue requirement by \$129,564.25 (38%). The Company also submitted proposed changes in base rates and commodity charges. By this Order the Commission authorizes an annual increase in revenue for Falls Water of \$82,241 or 24% and approves related changes in tariff rates. Falls Water is an Idaho not-for-profit corporation and holder of Certificate of Public Convenience and Necessity No. 236. Falls Water provides water service in the Idaho Falls area to approximately 1,507 metered residential customers, 11 multi-family residential customers, 30 metered commercial customers, and 574 flat rate residential customers.

The issues, comments and the Commission's related findings are set forth below. The Commission has reviewed and considered the filings of record in Case No. FLS-W-03-1 including the analysis, comments and recommendations of Commission Staff and the Company's Reply. We have also reviewed our prior rate Orders in Case Nos. FLS-W-97-1 (Order No. 27110) and FLS-W-01-1 (Order No. 28907). We continue to find it appropriate to process this Application without a technical hearing and based on the written filings of record. Reference IDAPA 31.01.01.204.

**APPLICATION**

Falls Water maintains that an increase in rates is needed to keep up with the increased costs of maintenance and replacement of aging infrastructure and to improve its customer service response.

Falls Water in its Application states as follows:

That the need for filing its Application has come about due to the fact that the Company is currently operating at a loss. The requested increase in charges, it states, will result in revenues sufficient to pay for the current operating

expenses and provide a small return, which will be held by the corporation for system improvements and replacement.

The aging of many of the infrastructure assets of the Company is requiring more repair and replacement. Currently, about 900 of the 1500 meters in the system are in need of replacement over the next ten years. The annual replacement cost for 93 1/4" meters is \$13,050. Routine maintenance, the Company states, is not being done with the frequency that it should be done. Maintenance on fire hydrants is not being completed as promptly as needed due to lack of funds and manpower. For the same reason, Falls Water states that approximately 50 street valves are in disrepair and an additional 25 new valves have yet to be installed to correct deficiencies of needed street valves in older portions of the water system. The Company states that a new field employee was hired in 2003 and that another employee is needed. A study by its engineer compared the Falls Water Company employee total to the number of employees in other comparably sized water systems and found that Falls Water was 1.5 employees short of the average number of employees at the other water systems.

Included with the Company's filing were balance sheets, income statements, rate base calculations, explanation of rate calculations and proposed tariffs.

On August 21, 2003, the Commission issued a Notice of Application in Case No. FLS-W-03-1 and in Order No. 29317 suspended the Company's proposed October 15, 2003, effective date.

On September 22, 2003, the Commission issued a Notice of Modified Procedure in Case No. FLS-W-03-1. Reference IDAPA 31.01.01.201-204. A public workshop and opportunity for Falls Water customers to present oral testimony was held in Idaho Falls on October 8, 2003. No customers attended the workshop. No oral testimony was presented. The deadline for filing written comments was November 14, 2003. The Commission Staff and one customer were the only parties to file comments. On November 20, 2003, the Company filed Reply Comments.

#### **Reply Comments**

In Reply Comments filed by Falls Water on November 20, 2003, the Company states that it has reviewed Staff's Comments, finds Staff's recommendations acceptable and urges the Commission to accept Staff's recommendations. The Company requests a December 15, 2003 effective date.

## **Staff Comments/Recommendations**

Staff comments and recommendations in Case No. FLS-W-03-1 can be summarized as follows:

### *Test Year, Rate Base, Return on Equity and Revenue Requirement*

Staff reviewed Falls Water's Application and performed a field audit of the Company's financial books and records. Staff recommends changes to both the rate base amounts and the revenues and expenses proposed by Falls Water. Staff proposes a total rate base for Falls Water of \$232,116 instead of the \$341,553 in Company Application. The Staff recommended return on equity of 12% equates to annual return on rate base of \$27,854. The Commission, Staff notes, has for several years been using 12% as a reasonable return on equity for small water companies in recognition of the increased risk associated with a small customer base. Staff pointed out that in the Company's last rate case, Falls Water was allowed to calculate rates with an authorized return on investment even though the utility is incorporated as a non-profit company. Retained earnings for Falls Water by prior Commission direction are to be used only for capital improvements, repair and replacement. Reference Order No. 28907, Case No. FLS-W-01-1; Order No. 27110, Case No. FLS-W-97-1.

Based on its analysis and use of a Company proposed 2002 test year for operating expenses with adjustments for known and measurable changes, Staff recommends that the annual revenue requirement for Falls Water be set at \$422,698. This translates to an overall revenue increase of \$82,241 or 24% and compares to the Company's requested increase of \$132,745 or 39%. Because the Company has a non-profit status, Staff states that there is no need to gross up the revenue for income taxes.

### **We find**

In reviewing the filed comments, we find that the Company has agreed with the analysis and recommendations of the Commission Staff. We find that Staff's recommendations are based on its audit of Company records and operations. We find that the Staff identified exceptions and related adjustments to the Company's financial records as reflected in the Attachment to this Order are proper and in conformance with observed accounting standards. We find that the resulting schedules accurately reflect the Company's financial profile, rate base and operations for test year 2002. See Attachment to Order No. 29397.

We continue to find a 12% return on equity to be reasonable for Falls Water. In doing so we acknowledge that small water companies have greater risks than other utilities. We also recognize the operational and economic challenges facing small water companies in their continuing efforts to provide their customers with safe, potable water. We note that Falls Water is incorporated as a non-profit entity. In lieu of a return on investment for shareholders, we continue to direct that the Company's retained earnings be used as a reserve for capital improvements, repair and replacement as we did in Order No. 27110.

The labor expense adjustments we approve in the calculation of revenue requirement reflect an increase in customers and the level of additional service required. We find at this time that a mix of full and part-time employees enables the Company to keep its labor costs reasonable and commensurate with the manpower level required to furnish, provide and maintain adequate service. The Company is to be commended for providing a reasonable health insurance program for its employees as a part of their wage/benefit package.

In the context of the record established in Case No. FLS-W-03-1 and the results of Staff audit and adjustments, which the Company has agreed to and which we accept as fact, we approve and find just and reasonable for Falls Water Company the following: use of a 2002 test year, a rate base of \$232,116, a return on equity of 12%, an authorized revenue requirement of \$422,698, and a resultant authorized revenue increase of \$82,241 or 24%.

#### *Rate Design*

In developing a rate design proposal for Falls Water, Staff makes adjustments for known and measurable changes in customers and water usage:

##### *Customers*

The Company's Application indicates that there are 1,352 residential metered customers. As of September 2003, the Company reported that the actual number of metered residential customers on the system was 1,507. Staff uses the known and measurable number of metered residential customers on the system for rate design purposes.

##### *Actual Water Usage*

Falls Water uses 2002 water consumption data for its rate design calculations. Staff has reviewed the water consumption for both 2002 and 2001 and found that significantly more water was used in 2001 than in 2002. Staff has not ascertained the reason for this significant

change. Whatever the reason, Staff believes that it is more appropriate to use both 2001 and 2002 usage in rate design calculations. Therefore, Staff in its rate design averages customer usage over the years of 2001 and 2002. Staff also normalized the electricity expense to reflect the additional water consumption used in the rate design calculations.

**We find**

The Commission finds that it is reasonable to adjust test year data for known and measurable changes if the changes are shown to be reliable and certain. To such end we agree that it is reasonable to use the actual number of metered residential customers and best estimates of water usage in rate design.

**Multi-Family Residential Rates**

In the past, the owners of multi-family apartment complexes were charged the same as individual flat rate customers and all apartments were charged the flat rate whether they were occupied or not. The Company indicates that all apartment buildings are now metered and proposes that the owners of apartment buildings be charged a metered rate. The Company indicates that there are only four apartment buildings. In fact, however, there are 11 apartment buildings. The Company was proposing to bill an apartment complex composed of eight buildings as one customer. Staff believes that each metered building in an apartment complex should be billed as a separate customer and that each metered building should be charged a monthly customer charge. This adjustment, Staff contends, treats all apartment building owners equally, whether the apartments are built as stand alone or in a complex. It also provides additional winter revenue to the Company because of additional base charges.

**We find**

The Commission directs the Company to treat all individually metered buildings as a separate customer for billing purposes. As such they should each be charged a monthly customer charge. Customer bills for complexes can be aggregated to minimize mailings.

**Volume Included in Base Rate**

Falls Water has requested that the monthly usage allowance or volume included in base rates be reduced from 20,000 gallons to 17,000 gallons. Staff performed a bill frequency analysis and found no noticeable changes in customer usage at 17,000 gallons that would justify

a reduction. Furthermore, Staff believes a reduction in the base commodity appears to unfairly penalize metered customers over flat rate customers. Based on flat rate customer usage considered in the Company's 2001 rate case and on the actual 2002 usage data provided in this case, the average flat rate customer uses 34,460 gallons per month. This compares to the average metered residential customer usage of 25,010 gallons per month. Therefore, Staff recommends that the volume included in base rates remain unchanged at 20,000 gallons.

### **We find**

Based on the data presented, the Commission finds no justification for reducing the monthly usage allowance for metered customers.

Staff believes that it is appropriate to have similar charges for similar usage and has developed a rate design based on both metered residential and flat rate residential consumption averaging 34,460 gallons per month. This amount is equivalent to the actual 2002 average flat rate customers' usage. For ease of billing, Staff's metered rate design is the same for metered residential, multi-family residential and commercial metered service.

Staff's preferred rate design option for metered customers makes adjustments to both the base charge and the commodity charge. The first rate adjustment is a 15% increase in base charges or \$1.50 for a base charge of \$11.50. The second adjustment is an increase in the commodity charge to collect the balance of the Staff recommended revenue requirement. Flat rate charges for unmetered customers are based on the adjusted commodity rate for their average 34,460 gallons of consumption. The resulting rate design is the following:

<b>Staff Rate Design Option 2 - Base &amp; Commodity (H<sub>2</sub>O) Adjustment</b>								
Customer Class	No. Cust.	Flat or Base Rate	Vol. Included in Base Rate	Rate per 1000 gal Over Base	Annual Usage In Excess of Base Vol.	Total Revenue	Percent Change From Existing	Ave Annual Bill
Flat Rate Residential (R-2)	574	\$ 17.50	unlimited	-	-	\$ 120,540	27%	\$ 210.00
Multi-Family Residential (R-3)	11	\$ 11.50	20,000	\$ 0.41	1,359	\$ 2,075	-78%	\$ 188.66
Metered Commercial (C-2)	30	\$ 11.50	20,000	\$ 0.41	21,938	\$ 13,135	21%	\$ 437.82
Metered Residential (R-1)	1507	\$ 11.50	20,000	\$ 0.41	191,529	\$ 286,493	17%	\$ 190.11
<b>Totals</b>	<b>2122</b>				<b>214,826</b>	<b>\$ 422,243</b>	<b>18%</b>	

Staff represents that its rate design minimizes the summer peak bill impact for customers and only slightly increases the average bills. It also provides the Company with 15% additional winter revenue.

**We find**

The Commission finds the rate design proposed by Staff and agreed to by the Company to be fair, just and reasonable. It fairly reflects the respective usage of metered and flat-rate customers and is an equitable way to recover the Company's revenue requirement. Reference *Idaho Code* § 61-503.

**Customer Comments**

Only one Falls Water customer submitted comments. That customer objects to the timing of the Company's request, contending that "the time to raise rates is when the economy is good, not when it is sliding. . . . Taxes have gone up, other utilities have gone up, gasoline has gone up, while income is going down. . . . Us little guys have had a hard time making ends meet as it is without additional expenses and increased rates at every turn."

**We find**

In authorizing this rate increase today we recognize that for some customers this will result in economic hardship. The Commission is unaware of any assistance programs or aid available to water utility customers. While not insensitive to the economic circumstances of customers, we note that we also have an obligation to Falls Water to set rates at a level sufficient to recover its costs of production and service. We encourage customers who are having difficulty in paying their water bills to contact the Company to discuss payment arrangements.

**Other Issues**

*Water Conservation – Flat Rate Customers*

Staff notes that the Company has no active conservation program and that its 574 flat rate customers have little incentive to conserve water. Staff recommends that the Company use a bill message or some other method of its choosing to give flat-rate customers suggestions on water conservation and the wise use of water. Water conservation by customers, Staff notes, would minimize upward pressure on rates by reducing pumping costs.

**We find**

The Commission has previously noted in Falls Water Orders that water is a precious commodity that should be conserved and used wisely. Without meters it is difficult to convey to customers the true value of water or provide pricing signals or incentives to conserve. Reference Order No. 28907. The Company is directed to provide water conservation/wise use of water information to customers.

*Flat Rate Customers in Metered Service Territory (Henderson Trailer Park)*

In discussions with the Company, Staff discovered that there are approximately 50 customers in the metered service territory that do not have meters (Henderson Trailer Park). Staff further discovered that these customers had meters prior to the 2001 rate case but the meters were removed in anticipation of Commission approval of a flat rate tariff change in that case. In Order No. 28907 the Commission required the retention of the Tariff Schedule R-2 (Flat Rate) eligibility requirement. The Commission's decision effectively eliminated any additional flat rate customers outside of the original flat rate customer area. It also prohibited flat rate service for the approximately 50 customers in the area where the Company had removed the meters. Staff recommends that the meters that were removed be replaced in compliance with Commission Orders and so as to provide an appropriate price signal and equity among all users.

**We find**

In this case Staff reports that the Company has failed to replace the 50 customer meters in the Henderson Trailer Park area that were removed prior to the Company's 2001 rate application. Reference Case No. FLS-W-01-1. This area is outside the unmetered flat-rate area. The Company is directed to replace the meters in the Henderson Trailer Park area on or prior to June 15, 2004. Six months, we find is a reasonable period to accomplish the task and we were informed by Staff that the Company has agreed to install the meters within that time period.

*Contributions in Aid of Construction*

In the last rate case, Order No. 28907, the Company was directed to start booking hookup fees to the Contributions in Aid of Construction (CIAC) account instead of to the revenue accounts. These hookup fees were to be used only for the addition of capacity or the expansion of major water transmission lines. In 2002, the Company began booking these fees

separately. However, Staff believes that the contributions should be further separated from revenues and tracked to assure the Commission and Staff that they are used for the intended purposes. Staff recommends that the funds be placed into a separate bank account and used only for documented upgrades for wells and major transmission lines. This will allow the Company to have some funds available when it is time for new wells or major lines to serve new customers.

**We find**

The Commission finds Staff's recommendation to be reasonable and directs the Company to book Contributions in Aid of Construction into a separate account and to use the funds only for new sources of supply or major pipeline expansion.

*Collection Practices*

During 2002, Falls Water changed the way it billed its non-metered customers. All the non-metered customers are located in two large mobile home parks. The majority of the lots in the two parks are owned by an affiliate of Falls Water. Until 2002, the owner of the lot, not the individual who lived there, paid these accounts. During 2002, the Company began billing individual renters instead of the owner of the lot. The Company's uncollectibles went up dramatically. Based on Staff discussions with the Company, it appears that the Company does not actively pursue customer collections after a customer has moved. Staff recommends that the Company turn over uncollected amounts to a collection agency. This would require little effort on the part of the Company and may result in additional revenue. Use of the Commission's Rules regarding water shut-offs would also allow the Company to proactively reduce bad debt expense.

**We find**

The Commission directs the Company to implement a more aggressive collection practice to reduce its bad debt expense. It appears that the utility has not exhausted all collection remedies available to it. At a minimum we expect the Company to more closely monitor its delinquent accounts and to exercise non-payment rights available to it under the Utility Customer Relations Rules, IDAPA 31.21.01.000 *et seq.* We also encourage the Company to utilize collection agencies and in appropriate instances the State's civil courts.

### *Engineering Expense*

During the year 2002, Falls Water hired an engineer to perform a significant study regarding the Company's impact area and future upgrade needs. The Company has been able to secure a grant from the Idaho Department of Environmental Quality to help expand the study to other water systems in the area. This study will help Falls Water map out its needs (long-term projects and upgrades) and service boundaries for the next 20 years. Staff recommends that the Company capitalize its engineering costs associated with the long-term study.

Staff's audit revealed that the Company was expensing some plant-related projects and was capitalizing others. Staff recommends that the Company capitalize all plant-related projects. By capitalizing the amounts instead of expensing them in the year they occur, both the Company and its customers will benefit. The Company will be able to capture the benefits of the projects over their useful life through a return on its investment in the projects and receive a related increase in depreciation expense. Customers will benefit by not having to pay for it all at once. By capitalizing rather than expensing its engineering projects, the Company's revenue requirements are reduced. Staff calculated a \$12,716 difference between capitalizing and expensing the \$14,210 cost associated with the Company's planned engineering projects. Staff recommends that the Company begin immediately to capitalize these items for its own benefit and for the benefit of its customers.

### **We find**

Engineering studies and costs generally relate to long-term projects and upgrades. The Commission finds it reasonable to require the Company to capitalize rather than expense its long-term engineering study costs and all plant-related projects. Such an accounting practice, we find, comports with standard utility practice to match investment return with a plant's useful life and provides benefit to customers by keeping rates consistent and less volatile.

### **CONCLUSIONS OF LAW**

The Commission has jurisdiction and authority over Falls Water Company, Inc., a water utility and the issues raised in Case No. FLS-W-03-1, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

### **ORDER**

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission in Case No. FLS-W-03-1 does hereby approve as

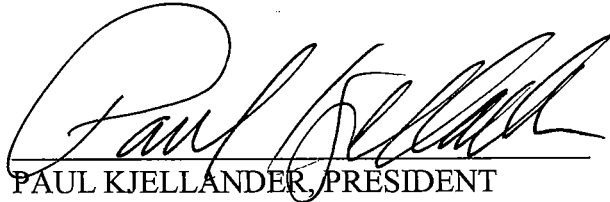
just and reasonable the detailed changes in revenue requirement, return on equity, rate design and Schedule R-1, R-2, R-3, and C-2 tariff revisions.

IT IS FURTHER ORDERED and the Company is directed in compliance with the foregoing to file amended tariffs to reflect the authorized charges on or prior to the effective date that we hereby authorize, i.e., December 15, 2003.

IT IS FURTHER ORDERED and the Company is directed as more particularly described above to comply with the Commission's directions regarding water conservation information, installation of meters, Contributions in Aid of Construction, collection practices and capitalization of engineering study and project expense.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

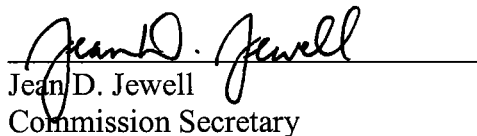
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12<sup>th</sup> day of December 2003.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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					2002 Actual Results	Accepted Adjustments	Total Commission Ordered
				Ordinary Income/Expense			
				Income			
1				400 · Operating Revenue			
2				460 · Unmetered Revenue	104,171	0	104,171
3				461.1 · Metered Residential	227,542	0	227,542
4				461.2 · Commercial Revenue	7,284	0	7,284
5				474 · Other Utility Revenue	1,460	0	1,460
6				Total 400 · Operating Revenue	340,457	0	340,457
7				Total Income	340,457	0	340,457
8							
9				Expense			
10				601.5 · Labor Field	49,784	44,755	94,539
11				601.7 · Labor Meter Reading	5,280	348	5,628
12				601.8 · Labor Office	36,000	(26,700)	9,300
13				601.9 · Admin - Labor	52,000	2,168	54,168
14				603 · Salary Officers & Directors	0	7,704	7,704
15				604 · Employee Benefits	0	8,100	8,100
16				610 · Purchased Water	1,112	0	1,112
17				615 · Electrical Power	70,858	15,424	86,282
18				620.2 · Source M&S	4,924	0	4,924
19				620.6 · Distribution M&S	10,216	0	10,216
20				620.7 · Postage	6,372	5,628	12,000
21				620.8 · Office	6,539	(2,233)	4,306
22				620.81 · Telephone Expense	6,380	0	6,380
23				620.82 · Bank Service charges	743	(743)	0
24				631.1 · Engineering	36,210	(33,716)	2,494
25				631.2 · Accounting	1,000	0	1,000
26				631.3 · Attorney	367	0	367
27				635 · Testing	5,808	527	6,335
28				636.2 · Source Contract Repairs	1,311	0	1,311
29				636.3 · Trash	169	21	190
30				636.6 · Distribution Contract Repairs	4,299	0	4,299
31				636.7 · Data Processing	11,800	(5,800)	6,000
32				641 · Rental of Property	1,300	3,050	4,350
33				642 · Rental of Equipment	3,112	0	3,112
34				650 · Transportation Expense	7,029	0	7,029
35				656 · Insurance Expense	3,918	980	4,898
36				660 · Advertising Expense	2,081	0	2,081
37				670 · Bad Debt Expense	4,619	(656)	3,964
38				675.1 · Training Expenses	290	0	290
39				675.2 · Dues & Publications	860	0	860
40				675.4 · IDHW Fee Expense	7,860	320	8,180
41				Total Expense	342,242	19,176	361,418
42				Net Ordinary Income	(1,785)	(19,176)	(20,961)
43							
44				Other Income/Expense			
45				Other Income			
46				421 · Non-Utility Income	25,125	(17,174)	7,951
47				Total Other Income	25,125	(17,174)	7,951
48				Other Expense			
49				403 · Depreciation Expense	22,031	0	22,031
50				408 · Taxes		0	0
51				408.11 · Property Taxes	3,647	972	4,619
52				409.11 · State Income Tax	30	0	30
53				Total 408 · Taxes	3,677	972	4,649
54				408.10 · Regulatory Fee	848	0	848
55				426 · Misc. Nonutility Expenses	18,513	(13,180)	5,334
56				427.3 · Interest Expense	8,023	493	8,515
57				615.1 · Electrical Power - Black Hawk	5,927	(5,927)	0
58				615.2 · Andco Well - Electricity	657	(657)	0
59				620.21 · Source M&S - Black Hawk Estates	495	(495)	0
60				620.61 · Black Hawk Distr M&S	844	(844)	0
61				620.62 · Andco Distr M&S	0	0	0
62				620.811 · Telephone - Black Hawk Estates	320	(320)	0
63				635.2 · Testing - Andco System	15	(15)	0
64				Total Other Expense	61,350	(19,973)	41,377
65				Net Other Income	(36,225)	2,799	(33,426)
66							
67				Total Net Income	(38,010)	(16,377)	(54,387)
68							
69				Additional Return Allowed by the Commission			27,854
70				Total Revenue Allowed by the Commission			422,698
71				Increase Allowed by the Commission			24%